

SECRET*File Cy***ROUTING AND RECORD SHEET**

SUBJECT: (Optional)

FROM:

Chief, Retirement Division
906 Ames Bldg.

EXTENSION

NO.

DATE

22 May 1986

TO: (Officer designation, room number, and building)

DATE

RECEIVED

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OFFICER'S
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

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Attached are summaries of Supplemental Retirement Legislation (Tab A), Retirement Annuity Taxation Legislation (Tab B), and Roth/Stevens "Early Out" Retirement Bill (Tab C).

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SUPPLEMENTAL RETIREMENT LEGISLATION

SECRETGENERAL PROVISIONS

- Creates a new supplemental retirement plan entitled the Federal Employees' Retirement System (FERS).
- Establishes three-tiered system: (1) Defined Benefit Plan; (2) Tax-deferred Thrift Plan; (3) Social Security
- Provides internal administration for all Agency employees
- Creates four basic retirement categories for Agency employees:
 - (1) CIARDS participants - hired prior 1984 (basic benefits unchanged)
 - (2) CSRS participants - hired prior 1984 (basic benefits unchanged)
 - (3) FERS regular participants - hired after 1983 (CSRS equivalent in new system)
 - (4) FERS CIA special participant - hired after 1983 (CIARDS equivalent in new system)
- Provides FERS special participant (CIARDS-equivalents) the higher benefits afforded law enforcement officers, fire fighters and air-traffic controllers
- Permits pre-1984 (CIARDS and CSRS participants) optional election to transfer to FERS

BASIC BENEFIT PROVISIONS

- CIARDS early retirement criteria retained for FERS CIARDS equivalent participants - age 50 with 20 years service; accrual rate is 1.7% for 1st 20 years and 1% thereafter plus a supplemental annuity equal to Social Security benefit from retirement to age 62
- CSRS retirement criteria initially retained for FERS CSRS equivalents - age 55 with 30 years service (but gradually increases to age 57 by year 2027). Accrual rate is 1% for all years of service plus a supplement equal to Social Security benefit from retirement to age 62
- Regular FERS also receive special accrual rate for overseas service (1.7% for each year)
- FERS regular participant contributes 7% (5.7% Social Security, 1.3% Basic Plan)

FERS special participant contributes 7 1/2% (5.7% Social Security, 1.8% Basic Plan)
- Benefits based on High-3 average salary
- COLA: For FERS regular participant - none to age 62; CPI minus 1% after age 62
- COLA: For FERS special participant - CPI minus 1% for all years of retirement

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THRIFT PLAN PROVISIONS

- Employee may voluntarily contribute up to 10% of base pay
- Government automatically contributes 1% even if employee make no contributions
- Government fully matches first 3% of employee contribution and matches 1/2 of next 2%. Total maximum government contributions equals 5%
- Contributions are tax-deferred for income taxes purposes
- Pre-1984 employees may contribute up to 5% of base pay; no government contributions, but employee contributions are tax-deferred
- For new employees under FERS, government contributes 1% of base pay to Thrift Plan for periods of service since 1 January 1984

CURRENT STATUS OF LEGISLATION

- Has passed Congress and being forwarded for President's signature
- President expected to sign
- Will be effective 1 January 1987. During interim, employee contributions remain at 8.45% (7.15% Social Security/Medical and 1.3% retirement fund)
- Any excess deductions from employees salary resulting from expiration of 30 April deadline for passage will be refunded to employees. Agency has not as yet initiated extra deductions and none will not have to be made if President signs before next pay period

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SECRETCOMPARISON OF CSRS AND CIARDS WITH MAJOR PROVISIONS OF NEW FEDERAL EMPLOYEE RETIREMENT SYSTEM (FERS)

	<u>Current CSRS</u>	<u>New FERS-CSRS</u>	<u>Current CIARDS</u>	<u>New FERS CIA Special Category</u>
Retirement Eligibility	Age 55 w/30 Yrs Serv Age 60 w/20 Yrs Serv Age 62 w/5 Yrs Serv	Age 55 w/30 Yrs Serv (Gradual increase to age 57 in year 2027) Age 60 w/20 Yrs Serv Age 62 w/5 Yrs Serv	Age 50 w/20 Yrs Serv	Age 50 w/20 Yrs Serv
Retirement Benefit	1.5% X 1st 5 Yrs Serv 1.75% X 2nd 5 Yrs Serv 2.0% X All Yrs Over 10	1% X All Yrs Serv plus annuity supplement from retirement to age 62	2% X All Yrs Serv	1.7% X 1st 20 Yrs Serv, 1% over 20 Yrs plus annuity supplement from retirement to age 62
Salary Base	High-3	High-3	High-3	High-3
Employee Contribution	7%	7% (1.3 Basic Plan plus 5.7% Soc. Sec.)	7%	7 1/2% (1.8% Basic Plan plus 5.7% Soc. Sec.)
Voluntary Capital Accumulation Plan	None (However under new law can contribute 5% without gov't matching; contribution tax deferred)	Max. 10% employee contribution w/gov't matching up to 5% of employee contribution - contributions tax deferred	Same as current CSRS	Same as regular FERS

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RETIREMENT ANNUITY TAXATION LEGISLATION

PROVISIONS OF HOUSE BILL:

- Eliminates "Three-Year Rule" that allows tax-free period immediately after retirement until employee contributions are recovered.
- Applies "General Rule" to all annuities, prorating recovery of contributions over actuarial life expectancy of annuitant.
- Effective for annuities beginning after 1 July 1986. (For employees who retire 1, 2, or 3 June, annuities are effective the day following retirement. For employees who retire 4 thru 30 June, annuities are effective 1 July 1986. Thus, as currently written in bill, employees who retire by 30 June would avoid effects of this bill.)

PROVISIONS OF SENATE FINANCE COMMITTEE PROPOSAL:

- Same provisions as House Bill with two exceptions:
 - A. Phased in over a two-year period;
 - B. Effective for annuities beginning after 1 January 1988.

AFFECT ON EMPLOYEES:

- These bills would cause high-ranking employees to incur as much as \$20,000 in additional tax liability in the first year of retirement. Lower ranking employees would also incur additional tax liability in first year.

CURRENT STATUS OF LEGISLATION

- House Bill approved by full House;
- Senate Finance Committee proposal not yet approved by full Senate. Senate to consider in early June;
- House/Senate Conference required to work-out differences in respective tax reform bills;
- Resolution by Congress not expected by the 1 July effective date contained in House Bill;
- Guess is that Congress will pass Bill but with an effective date no earlier than 1 January 1987 and perhaps as late as 1 January 1988.

PERCENTAGES ELIGIBLE TO RETIRE AS OF 1 MAY 1986

25X1

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BREAKDOWN OF ELIGIBLE RETIREES BY DIRECTORATE

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ROTH/STEVENS "EARLY OUT" RETIREMENT BILL

PROVISIONS OF BILL

- ° Would permit government employees (including Agency) to voluntarily retire (at employee's option) earlier than normal.
- ° Would also establish ceiling reductions by: (1) establishing a ceiling equal to on duty strength as of 1 July 86 (2) reducing ceiling further by restricting the hiring of replacements for those retiring between 1 July 86 & 1 Jan 87, and (3) maintaining new ceiling through 1991.
- ° Would allow employees to retire taking a reduction in annuity of 2% for each year under age 55, under the following liberalized criteria:
 - Any age with 25 years of service
 - Age 50 with 20 years of service
 - Age 55 with 15 years of service
 - Age 57 with 5 years of service
- ° Must retire between 1 July 86 and 1 January 87.

POTENTIAL IMPACT ON AGENCY

- 25X1 ° Would increase eligibles to retire by 31 Dec 86 [redacted]
- 25X1 [redacted]
- 25X1 ° [redacted] of Agency SIS employees would be eligible; [redacted] in DO.
- 25X1 ° [redacted] of Agency GS 14/15's would be eligible; [redacted] in DO & DA.

CURRENT STATUS OF LEGISLATION

- ° Senate Hearing held 15 May - D/OPM testified stating: concept acceptable with modifications; President must be given authority to exempt any agency he feels should be excluded; greater flexibility required to hire replacements; potential serious harm to national defense and other critical programs.
- ° Senator Roth acknowledged modifications required. Other Committee Members expressed concern for negative impact.
- ° House has not, as yet, developed a similar bill.
- ° Administration still not clear on extent it could support such a Bill.
- ° Unions generally supportive, but have reservations on loss of jobs and potential "contracting out".
- ° No further Senate hearings have been scheduled.
- ° Readings from SSCI staffer is that Bill not going anywhere soon - if ultimately considered will probably not look like original proposal, but will adhere generally to Administration's desires.

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